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December 12, 1997

Ms. Cynthia L. Johnson  
Director  
Cash Management Policy and Planning Division  
Financial Management Service  
U.S. Department of the Treasury  
Room 420  
401 14th Street, S.W.  
Washington, D.C. 20227

Re: Department of the Treasury  
Fiscal Service  
31 CFR Part 208  
Management of Federal Agency Disbursements; Proposed Rule

Dear Ms. Johnson:

The Treasury Management Association (TMA) welcomes the opportunity to comment on the proposed rule to implement the requirement that all Federal payments (other than payments under the Internal Revenue Code) be converted from checks to electronic funds transfer (EFT) after January 1, 1999.

TMA represents over 11,000 treasury professionals who, on behalf of over 4,000 corporations and other organizations, are significant participants in the nation's payments system. Organizations represented by its members are drawn generally from the Fortune 1,000 companies and the largest of the middle market companies. TMA members are responsible for the receipt and control of payments made to their organizations, and thus have a sizable stake in the policies and procedures designed to carry out the EFT mandate.

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TMA strongly supports the government's planned transition from paper to electronic payments. In the Association's view, the electronic delivery of payments and payment-related information enhances the productivity and competitiveness of the American economy by providing a cost-effective, secure and efficient means of transacting business.

However, many organizations are not aware of the benefits that EFT offers and are not yet prepared to take advantage of them. An extensive EFT promotional and marketing campaign must be undertaken by Treasury in advance of the EFT effective date so that Treasury's implementation of the EFT mandate will be judged by payment recipients to be responsive to their needs and in their best interests. It must also be well-coordinated and efficiently managed. If it fails to meet these criteria, the EFT mandate may fall victim to the same public and political resistance that developed against the Electronic Federal Tax Payments mandate.

TMA's comments address the following issues related to vendor payments and grant payments to organizations:

- Delivery of payment-related remittance information;
- Adherence to established industry rules and standards;
- Payee designation and enrollment procedures.

**1. Government agencies should be required to deliver remittance information with the EFT payment.**

The Treasury states that one of its goals in the implementation process is to ensure that "the system delivers payments and information *[emphasis added]* accurately, conveniently, and in a timely manner." TMA welcomes Treasury's recognition of the importance of remittance data in enabling vendors to reconcile funds received against outstanding invoices, and the government's efforts to develop a variety of methods to make remittance data available to vendors.

However, the proposed rule does not require government agencies to provide remittance information with the payment. Without a requirement in the rule, an agency might fail to develop procedures to extract relevant remittance information from its system and deliver it to vendors who require it.

In some cases, vendors can identify payments without remittance data. In other cases, lack of remittance information would impose a hardship on vendors unable to identify payments without considerable time and effort. As a TMA member commented, "it will create a tremendous burden on the corporate community to process government payments timely without the data to post the payment." Wrote another TMA member, if "payments could not be easily identified, and would require extensive posting effort, where a check could be automatically posted in the accounts receivable system, waivers would be requested."

The proposed rule allows hardship waivers only for individuals. A specific requirement that remittance information accompany payments would acknowledge that, under certain circumstances, a waiver might be necessary on grounds of hardship if the remittance information was not provided.

**TMA recommendation:**

**The final rule should specifically require federal government agencies to provide remittance information with EFT payments to vendors and should make provision for hardship waivers to vendors if remittance information is not available.**

**2. Procedures for EFT payments and remittance delivery should be coordinated on a government-wide basis.**

The government should use Automated Clearing House (ACH) CTX or CCD+ formats to transmit both payments and payment-related information. Respondents to corporate surveys have expressed an overwhelming preference for dollars and data to be delivered together, and not separately.

Although a majority of financial institutions today do not have the ability to pass along remittance information to their customers, the stimulus of the EFT mandate has already resulted in a major effort by the National Automated Clearing House Association (NACHA) to encourage financial institutions to provide that service. A recently adopted NACHA rule requires a Receiving Depository Financial Institution (RDFI)--upon request of the Receiver--to provide the Receiver with all payment-related information contained within the addenda records transmitted with CCD and CTX entries. This rule becomes effective September 18, 1998.

To enable financial institutions to fully carry out the EFT mandate and meet their customers' needs, the Treasury should support efforts by the Federal Reserve and NACHA to provide low-cost, easy-to-implement remittance delivery software for smaller financial institutions. NACHA's Rapid\*EDI is one example of such software. Another alternative is the Federal Reserve's plan to report remittance detail to financial institutions through its existing Fedline software. Electronic payments made by Fedwire should take full advantage of the new, expanded Fedwire format to provide remittance detail.

Large corporations that are already receiving payments and remittance information electronically from various sources may not find the cost of electronic delivery from their banks an obstacle. However, small businesses dealing with banks that currently do not provide remittances in either machine or human-readable form might object to paying for remittance information from their banks and might require the government to continue to provide it directly.

It is unfortunate that current efforts by agencies to provide remittance information to vendors are reportedly uncoordinated and not standardized. The data is sometimes transmitted electronically, sometimes reported by fax or mail--often with different formats and contents. Fragmented, non-standardized procedures with as many variations as there are government agencies will frustrate and confound vendors and financial institutions alike. The resulting administrative burden can complicate a company's implementation of financial electronic data interchange (FEDI) and reduce the company's motivation to expand its use. Without a coordinated approach to the EFT 99 implementation process--especially as it relates to the delivery of remittance information--even vendors favorably disposed to receiving EFT payments might mobilize against them.

Treasury should coordinate a standardized approach to EFT implementation, working with private sector organizations such as TMA, NACHA and the Bankers EDI Council. Publication of an federal EFT implementation guide describing payment procedures and remittance detail options would be of value to vendors and their banks, as well as to government personnel who would be spared the burden of responding to vendor inquiries resulting from unclear or incomplete information.

**TMA recommendation:**

**Treasury should require standardized, uniform implementation of the EFT mandate across all government agencies--with a focus on providing dollars and data together--and take the lead in coordinating its execution, in cooperation with TMA, NACHA and the Bankers EDI Council.**

**3. The government should adhere to established industry rules and standards for making payments and providing payment-related information.**

TMA notes with approval that the government's EFT payments will be made primarily through the Automated Clearing House (ACH) network. Treasury's procedures for originating ACH payments should conform to the NACHA Operating Rules governing the ACH. These efficient and responsible procedures have served the originators and receivers of payments, and the financial industry, for many years. Failure to follow NACHA rules will disrupt the operations of both vendors and financial institutions.

Standard formats for transmitting remittance information together with ACH payments have been defined by the American National Standards Institute's (ANSI) Accredited Standards Committee (ASC) X12. These electronic data interchange (EDI) formats specify the data that is carried in the addenda records of the CTX and the CCD+--ACH formats that the government uses for vendor payments.

The data provided by government agencies in the CTX and CCD+ addenda records should be syntactically correct according to ASC X12 standards. When the syntax is correct, the data flow is seamless--from the government to the financial institution to the receiving vendor for direct application to the organization's receivables system. If the syntax is erroneous, the data cannot be reported, or at least not without a great deal of time-consuming, expensive manual investigation and repair, which negates the benefits of electronic delivery.

Too many cases of syntactically incorrect data from government agencies have been reported by receiving financial institutions and vendors. This problem will be magnified many-fold when EFT 99 becomes effective. Treasury should devote significant technical resources and personnel to an expeditious and concentrated effort to ensure that the data transmitted with CTX and CCD+ payments are syntactically correct.

**TMA recommendation:**

**Treasury should adhere to the NACHA Operating Rules for ACH payments and establish quality control procedures to ensure that the data contained in CTX and CCD+ addenda records are syntactically correct according to ANSI ASC X12 standards.**

**4. The government should expand its proposed rule on Account Requirements to permit the designation of alternate vendor payees.**

Proposed Section 208.6(a) requires that "all federal payments made by EFT must be deposited into an account in the name of the recipient...." However, many businesses do not conduct their banking relationships in ways that would accommodate this rule.

Many companies designate an account in the general corporate name to receive payments in the name of a subsidiary, in order to avoid a proliferation of bank accounts. Other organizations--especially small businesses--routinely designate a bank account in the name of an accountant or other service provider to receive payments on behalf of the business.

Proposed Section 208.6(b) allows exceptions for payments to be deposited into the account of an authorized payment agent or a broker or dealer. Treasury should expand the exceptions to the requirement that the account be in the name of the recipient to allow:

- the use of a general corporate account for payments to affiliated entities;
- the use of an account whose owner has been designated by the recipient to receive the payment and who will be responsible for transferring the funds to the recipient.

**TMA recommendation:**

**Treasury should amend Section 208.6(b) to provide exceptions for vendor payments to be deposited into the account of an affiliated entity or into the account of another entity designated by the vendor, with appropriate legal safeguards.**

**5. The government should centralize, rationalize and automate its EFT enrollment procedures.**

To prepare for the EFT 99 mandate, government agencies are sending enrollment forms to vendors. While advance preparation is necessary, the resulting inundation of vendors with paper forms is not.

One small business that serves multiple divisions or branches within the Defense Department and the U.S. Postal Service reports receiving many separate forms from each of those entities. A centralized enrollment process for each government department would significantly reduce the paperwork burden now being imposed upon vendors in the name of automation.

Large corporations may have difficulty complying with the requirement that a cancelled check or deposit slip be provided to confirm bank routing and account information. Often, corporations maintain separate disbursement and depository accounts. Checks are not printed for depository accounts; even deposit slips may not be available if deposits are made only through lockboxes.

NACHA recently approved a rule to allow automated enrollment through the ACH network for federal government applications related to corporate payments. If implemented, this new application--which becomes effective September 18, 1998--could reduce the administrative burden on vendors and increase the accuracy and timeliness of the information received by the government.

In the interim, the government should act to reduce the complexity of vendor enrollment by centralizing the enrollment process within each government department.

**TMA recommendation:**

**Treasury should require each major government department and agency to develop a centralized EFT vendor payment database and utilize a single vendor enrollment form. Planning should be initiated to implement an automated enrollment system for vendor payments.**

**6. Education is key to acceptance of the EFT mandate.**

Receiving payments and information electronically instead of on paper has a far-reaching and significant impact on the way a company conducts its operations. Should these be disrupted by government mandate without adequate advance information and understanding, progress toward increased efficiencies in government payments through EFT could be halted.

**TMA recommendation:**

**Treasury should start now on a stepped up campaign to inform vendors and their financial institutions--especially small businesses and banks--of the advantages EFT offers for them.**

**Summary of recommendations**

TMA supports the government's plan to migrate from checks to electronic payments. To generate widespread acceptance and support in the vendor community, the Treasury's EFT implementation program must be well-coordinated, efficiently managed, and heavily promoted and marketed.

In support of these objectives, TMA recommends the following measures:

- The final rule should specifically require federal government agencies to provide remittance information with EFT payments to vendors and should make provision for hardship waivers to vendors if remittance information is not available.
- Treasury should require standardized, uniform implementation of the EFT mandate across all government agencies--with a focus on providing dollars and data together--and take the lead in coordinating its execution, in cooperation with TMA, NACHA and the Bankers EDI Council.
- Treasury should adhere to the NACHA Operating Rules for ACH payments and establish quality control procedures to ensure that the data contained in CTX and CCD+ addenda records are syntactically correct according to ANSI ASC X12 standards.
- Treasury should amend Section 208.6(b) to provide exceptions for vendor payments to be deposited into the account of an affiliated entity or into the account of another entity designated by the vendor, with appropriate legal safeguards.

- Treasury should require each major government department and agency to develop a centralized EFT vendor payment database and utilize a single vendor enrollment form. Planning should be initiated to implement an automated enrollment system for vendor payments.
- Treasury should start now on a stepped up campaign to inform vendors and their financial institutions--especially small businesses and banks--of the advantages EFT offers for them.

TMA looks forward to continuing its cooperation with the Treasury Department in its implementation of the EFT 99 mandate. If you have any questions about the TMA comment letter, please call Arlene Chapman of TMA at 301-961-8825.

Sincerely,



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